



Utah Fund of Funds

Annual Report
2011



2011 Annual Legislative Update from the Board

Dear Utah Legislators:

We are pleased to submit the attached report for the 2011 fiscal year of the Utah Fund of Funds program (the "Fund"), which is managed by the Utah Capital Investment Corporation ("UCIC"). As we prepare to enter 2012 in the improving but still uncertain economic climate, the UCIC Board is committed to maintaining the program's positive economic impact on the state and executing the program's legislative mandate as outlined in the Utah Venture Capital Enhancement Act (2003).

We are happy to report that Fund investments are performing positively, and returns are tracking above median fund of fund returns for vintage year 2006 (year of launch). Even so, the downturn in the economy, coupled with capital costs associated with financing from banks, has created negative pressure on the overall performance of the Fund. Nevertheless, if the portfolio continues to perform as expected, there will be no demand on tax credits for the next five years. Since launch of the Fund five years ago, none of the tax credits have been monetized. To ensure the best possible return to the State, it is critical for the Fund to have access to the lowest cost of capital. The UCIC is exploring multiple options for refinancing the current loans, lowering financing cost, and utilizing the remaining tax credits for further investment and economic development in Utah.

The Fund is dedicated to supporting Utah's entrepreneurs, companies and investment funds with the goal of improving economic development in the state. We continue to sponsor entrepreneur events in the state, conduct symposiums and conferences for education and networking in various industries and focus efforts on matching Utah's entrepreneurs with sources of capital from the existing investment portfolio of 28 funds, as well as other funds in and out of the state. The investments by our partner funds into 56 Utah companies have created over 1,300 new Utah jobs (equal to over 5,600 new job years since inception). The average salary of these jobs is \$64,286, which exceeds the Utah average salary of \$39,811.

Economic impacts in Utah from over \$304 million of investments in the 56 Utah companies by our portfolio funds have generated more than \$30 million in incremental tax revenue to the State of Utah. A REMI impact model, supplied by the Governor's Office of Planning and Budget - validated by the University of Utah's Bureau of Economic and Business Research RIMS II impact model - projects that Utah companies receiving investments from Fund partners will generate well over \$75 million of incremental tax revenues to the State through 2020. Consequently, to date the cost-benefit analysis is very positive in evaluating the impact of the Fund. Though no tax credits will be monetized in the next 5 years, we plan to utilize \$2-5 million for a few years beginning in 2017 depending on the ultimate performance of the portfolio

and economy. Discussions are being held with key government decision makers to establish an annual reserve account in advance of any credits being utilized

Finally, we are delighted to report that the Fund continues to serve as the standard for public-private partnerships creating real and measurable benefit to Utah's economy, companies and citizens. It is our privilege and honor to volunteer our time to work with the State on such an innovative and successful program. We offer thanks to the UCIB, GOED, legislators, program staff, visionary founders, community supporters and managers who have helped make this program such a success.

Sincerely,

A handwritten signature in blue ink, appearing to read "Will West", with a stylized flourish extending to the right.

Will West
Chairman



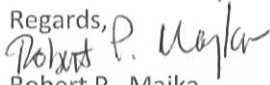
Utah Capital Investment Board

Chairman's Summary

During the past year, the Utah Capital Investment Board ("UCIB") fulfilled its oversight responsibilities and due diligence of the Utah Capital Investment Corporation ("UCIC") and the Utah Fund of Funds ("UFOF") which together manage the state of Utah's \$300 million "Contingent and Refundable Tax Credits" which are committed to support venture capital and private equity funds making investments that benefit Utah. UCIB members participated in this highly successful public private partnership by attending UCIC board meetings and participating on the UCIC nomination, budget, audit, and finance committees. Additionally UCIB members reviewed and opined on UCIC and UFOF financial and economic development reports and met frequently with the Fund staff. Currently, \$100 million of tax credits have been committed to a preferred equity investment from Deutsche Bank AG and \$20 million have been committed to Zion's Bank for a revolving line of credit. The performance of the portfolio is above the median return compared to industry standards; however, the difficult economy of the past three years has had a negative impact on the overall performance of the underlying funds. Nevertheless, we do not expect that any tax credits will be monetized during the next five years.

The Utah Capital Investment Board works closely with UFOF in allocating state tax credits to equity and credit-financing structures to support venture and private equity investments into professionally managed funds, while maximizing economic development to the state of Utah. Given the difficult economy over the past few years, the two boards have worked to be more efficient in managing the investments while implementing a plan to lower capital costs for the program in order to continue to facilitate financial support for Utah entrepreneurs, companies and investment funds.

The UCIB wishes to confirm its commitment to provide oversight of the UCIC and UFOF activities in achieving the legislative mandate to support venture capital and private equity in the state and maximize economic development. We believe that the program has had positive impact on the state with nearly 56 companies receiving investments from funds in the UFOF portfolio. These companies added over 1300 new jobs after receiving \$305 million from fund investments. Further economic development and capital formation progress will be achieved for Utah by UCIC and UFOF as options for additional investing are reviewed and implemented in the coming year. New financing at competitive capital costs will allow UCIC and UFOF to continue supporting Utah's growing entrepreneurs, companies and funds by investing in new funds. We look forward to a successful public and private partnership in achieving Utah's long-term objectives of technology innovation, investment and support for entrepreneurs.

Regards,

Robert P. Majka
Chairman

Fiscal 2011 Annual Report

The Utah Fund of Funds (“UFOF”) is pleased to report the important economic development efforts and investing results realized by the Fund during fiscal year 2011. UFOF continues to reach out to the Utah entrepreneur and investment communities, further develop broad relationships with sources of capital, match entrepreneurs to capital sources and increase velocity of private investment dollars into the state of Utah.

Historical Background

With support from leaders in Utah’s legislative, investment and entrepreneurial communities, UFOF was established in 2003 with the passage of Utah House Bill 240 (“HB 240, the Venture Capital Enhancement Act). Led by Utah economic development leaders and entrepreneurs involved with the then-Utah Information Technology Association (UITA; now the Utah Technology Council, UTC), an unfunded legislative workgroup crafted the legislation, based on best practices from other states and adapted them to the needs of Utah. Sponsored by State Representative Peggy Wallace, with support from leaders on both sides of the aisle, HB240 passed overwhelmingly through both the Senate and the House in its first attempt. The original legislation approved \$100 million of contingent tax credits. In 2008, the legislature approved an additional \$200 million in contingent tax credits for the program.

Legislated Purpose

The Utah Venture Capital Enhancement Act section § 63-38f-1202 states that the findings and purpose of the legislature creating UFOF stemmed from several Utah economic needs: “(1) The Legislature finds that: (b) a critical shortage of seed and venture capital resources exists in the state [of Utah], and that shortage is impairing the growth of commerce in the state; (c) a need exists to increase the availability of venture equity capital for emerging, expanding, and restructuring enterprises in Utah, including enterprises in the life sciences, advanced manufacturing, and information technology.”

Further, the legislation was enacted in order to: “(a) mobilize private investment in a broad variety of venture capital partnerships in diversified industries and locales; (b) retain the private-sector culture of focusing on rate of return in the investing process; and (c) secure the services of the best managers in the venture capital industry, regardless of location.”

Highlights – As of December 31, 2011

- UFOF has committed \$121 million to 28 separate investment firms including 8 firms based in Utah. The fund commitment strategy has served to diversify the investor base and increase the breadth of investment expertise and depth of capital available to Utah entrepreneurs.
- 56 Utah companies have received \$304 million in investment capital directly from UFOF partner funds. An additional \$1.2 billion has been invested by non-UFOF portfolio funds into those 56 companies.

- At those companies, over 1600 current jobs (5600 *new job years*) were created in the state since program inception and over 3500 total direct and indirect new jobs are currently supported by these investment dollars. These jobs carry an average salary of \$64,286— well above the state average of \$39,811.
- UFOF and independent analyses estimate that these new jobs have already generated over \$33 million incremental tax to revenue at zero cost to the state of Utah to date. Any costs incurred by the state are currently deferred until 2017 at the earliest unless
- To date, over 1100 Utah early-stage companies have received formal review meetings with UFOF portfolio firms.
- Portfolio firms based outside of Utah have spent over 1200 working days, in the state meeting with Utah companies. Out-of-state UFOF portfolio funds invested over \$150 million into Utah's companies.
- The portfolio consists of eight Utah-based venture capital/private equity firms and 20 from outside the state.
- Portfolio firms were chosen from over 1000 interested funds, allowing UFOF to be very selective in seeking high-quality firms.

Program Financing

\$120 million of direct private sector financing has been provided to the program since inception and over \$300 million of investment from UFOF fund partners has been directly invested in Utah companies. UFOF financing is provided by private sources of capital, and supported by contingent, refundable Utah state tax credits. Current financing from the program includes commitment from Deutsche Bank and from Zions Bank. Additional sources of financial support for the current program are readily available from various interested sources. The 2009 recession and a poorly performing economy over the past several years coupled with the original financing structure and costs have negatively affected the overall fund performance. However, the lower interest rate environment and a recovering economy will provide an opportunity for the fund to refinance at lower rates and expand the programs impact on Utah based funds and companies in the future under a much more efficient structure.

Redemption of Tax Credits

As of YE 2011, there will be no demand to redeem any tax credits under the program during the next five years. After 5 years, current projections indicate that as much as \$19 million of tax credits may be drawn over a period of four to five years from 2017 through 2021 depending on economic and fund performances.

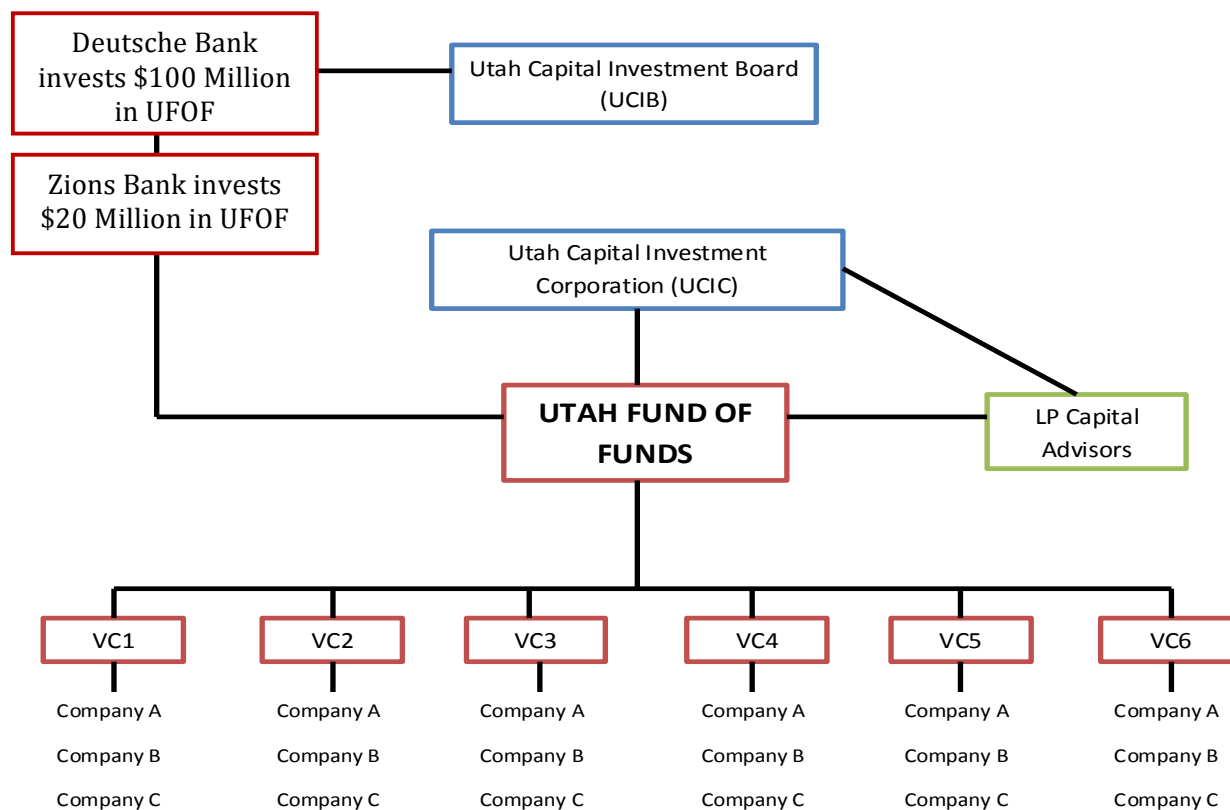
Continuing Demand

Utah ranks behind peer states on a per capita basis for seed and venture capital, as well as private equity in general. Many Utah based funds are seeking to raise their next round of capital following the economic slowdown caused by the 2009 recession. In the aftermath of the recession approximately 35% of venture funds nationally will be unable to raise additional capital creating fewer sources of capital for new and follow on investments. In order to fuel the economic recovery,

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businesses and funds will need new capital sources. Over 10 new and existing funds in Utah have requested support from UFOF for their next fund to support their investments in Utah.

Structure



UFOF Management

Tim Bridgewater, Managing Director

Mr. Bridgewater manages a \$300 million fund of funds program with investments in various venture capital and private equity funds. The Utah Fund of Funds is a quasi-government/public-private partnership program aimed at providing access to capital for Utah companies from some of the nation's leading venture and private equity managers. Mr. Bridgewater co-founded Interlink Capital Strategies in 1994 and serves as Chairman of the financial advisory firm with offices in Utah and Washington, D.C., where he has advised on over \$800 million of private equity investments in the U.S. and Asia. He has been the co-founder of six other companies including energy, healthcare, biotech and software technology companies. The Securities and Exchange Commission (SEC) has approved Mr. Bridgewater as a registered investment advisor at Atlas Capital Partners. He also served on the board and as a managing director of a NASDAQ publicly traded (SBIC) mezzanine fund investing in small and medium- sized middle-market companies. Tim Bridgewater has served on the advisory boards of the U.S. Department of Commerce, U.S. Export-Import Bank, Telecom Asia, as well as other business, education and community boards and organizations. He served as a senior policy advisor to Governor Jon Huntsman, Jr. on education and energy policy. In 2010, he was a candidate for the U.S. Senate in Utah and has served in several national and local Republican Party positions. Earlier in his career he worked in commercial and international banking at Wells Fargo and U.S. Export-Import Bank. He received a B.S. in business finance from Brigham Young University and completed graduate studies in international economics at the University of Utah. He is married to Dr. Laura Bridgewater and is the father of four children: Chelsea, Nathan and twins, Brandon and Lily.

Matt Peterson, Vice President

Mr. Peterson is responsible for all entrepreneurial outreach, including sourcing Utah-based companies and matching them with appropriate sources of capital. In addition, Mr. Peterson has personally negotiated with more than 100 private equity buyout groups and heads UFOF origination effort in that area. In addition, Mr. Peterson coordinates financial reporting requirements for the program. Prior to joining UFOF, Mr. Peterson worked as a senior M&A Advisor with IndustryPro, a middle-market investment bank (private equity focus), where he personally led successful buyout and growth-equity transactions with aggregate values in excess of \$200 million. Prior to IndustryPro, Mr. Peterson worked as a financial consultant with Tosh Financial, one of the largest and fastest-growing neighborhood finance companies in the nation. Mr. Peterson began his career in the finance department at the American Standard Companies in Campinas, Brazil. He is an active volunteer in the community and regularly works- and raises money for non-profit organizations, including Juvenile Diabetes Research Foundation and Big Brothers/Big Sisters. Mr. Peterson enjoys cycling, studying languages, and being a sports fan. Mr. Peterson received a B.A. in Finance and an MBA from the University of Utah.

Cambridge Hossfeld, Administrator & Project Manager

Cambridge Hossfeld is the Project Manager at UFOF. Prior to joining the Utah Fund of Funds Ms. Hossfeld worked for Las Vegas based development company(s), Razaghi Development and Morgan and Associates. Ms. Hossfeld was involved in the development of a multi-million dollar Critical Access Hospital in Blanding, UT working with Utah Navajo Health Systems, Ute Mountain Ute Tribe, HUD and the USDA. Ms. Hossfeld implemented and oversaw all accounting systems/procedures and corporate governance through the construction of the hospital. Ms. Hossfeld has worked with NPO's for over 8 years including Valley Mental Health and Planned Parenthood. Cambridge Hossfeld has an A.S. in Criminal Justice from SLCC.

Ryan Davis, Chief Financial Officer

Ryan Davis is the CFO for UFOF. Mr. Davis is a CPA and an experienced private equity CFO with over 8 years of private equity CFO experience. Mr. Davis is the CFO at EPIC Ventures where he oversees accounting and reporting functions for the venture capital funds and the management companies. He is also a V.P./Venture Capital Controller at Zions First National Bank, a large limited partner in Epic Ventures and other private equity funds. Mr. Davis is also the outsourced CFO for the University Venture Fund as well as some other smaller funds. Previously Ryan was CFO at an international marketing company, and controller for a travel company. He started his career with the international accounting firm KPMG. Ryan received his Bachelor of Science degree in Accounting, cum laude, and a Master of Accountancy degree with an emphasis on Information Systems from Brigham Young University.

UFOF Investment Advisor, LP Capital Advisors

The legislation requires the fund to have an investment allocation manager to assist the UFOF in managing investments, risks and in depth due diligence on funds. UFOF's *Investment Advisor* is a professional firm chosen by the UCIC through a formal request for proposals (RFP) process. The advisor's primary duties include: finding and evaluating potential investments; performing due diligence; and providing investment recommendations to the UCIC board.

The current investment advisor for the program is LP Capital Advisors (LPCA). LPCA is headquartered in Sacramento California with a full-time office in Salt Lake City within the UFOF offices. LPCA's Utah office is led by Director, Richard Pugmire, an experienced business professional with previous experience at Ford Motor Company in the corporate pension division working with private equity and hedge fund investments. Mr. Pugmire is a University of Utah MBA graduate and a CFA Charter holder. The firm is a non-discretionary advisor to over \$125 billion of investable capital ranging from Calpers in California to New York State Common Retirement fund.

Utah Capital Investment Corporation Board (UCIC)

Utah Capital Investment Corporation (UCIC) is a non-profit 501(c)(3) corporation with a public charter to approve, in partnership with UCIB, UFOF financing, approve all UFOF investments, and choose and manage the program's management and outside investment advisor. All UCIC board members volunteer their time and expertise, without receiving pay. The UCIC consists of prominent national and local industry leaders. Current members include:

Will West (UCIC Chairman): Co-founder, President & CEO, Control4.

Mr. West is the President, CEO, and Co-Founder of Control4, an award winning manufacturer of residential control systems. This is the fourth new technology company he has started in Utah with his long time partner Eric Smith. In addition to Control4's financings, Mr. West has raised more than \$250 million in private capital. Mr. West also co-founded STSN (now iBahn) in 1998 and has served as its Chairman, CEO, and President. He and the rest of the iBahn team have grown the company to where it is today -- the worldwide leading provider of wired and wireless broadband services for business travelers. Every month, more than a quarter of a million business travelers rely on iBahn to keep them connected while they are on the road. iBahn secure broadband solutions are available in hundreds of thousands of guest rooms and hotel meeting rooms worldwide. Prior to

founding iBahn, Will was the CEO, President and Co-Founder of PHAST Corporation. Under his leadership PHAST Corporation (now a division of a larger control systems company) became the leading manufacturer of high-end home automation systems. PHAST brought to market over 30 electronic control products and an extensive suite of software that revolutionized the residential systems market. Mr. West's professional experience includes work at Proctor and Gamble, the Federal Savings and Loan Insurance Corporation, Price Waterhouse, and Wasatch Advisors. Mr. West holds a Bachelor's degree in Finance from the University of Utah and a Masters in Business Administration from the Wharton School of Business. He also holds the Chartered Financial Analyst designation.

Geoff Woolley (UCIC Vice Chairman): Founding partner, Dominion Ventures; founder and former executive chairman of European Venture Partners.

Geoffrey T. Woolley has been active in private equity investing for over 25 years and founded two successful venture funds in the United States and Europe. He pioneered the concept of venture debt and has invested in over four hundred companies in his career. Business titles include Founding Partner of Dominion Ventures, Inc. and Executive Chairman of European Venture Partner. Forming Dominion in 1985 at the age of twenty-four, he is the youngest person to raise an institution private equity fund from institutions that include Calpers, IBM, Mitsui, Travelers, Duke University and many others. At Dominion, he raised and managed over \$750,000,000 while returning attractive returns to investors. In 1998, he stepped back to an advisory role at Dominion to enable time to pursue other non-profit and business interests. At Dominion he invested in well know companies such as Ciena, Coinstar, Human Genome Sciences, Powersoft, Tivoli, Vertex and Xylan along with hundreds of successful and not so successful companies. He founded European Venture Partners (EVP) in 1997 to introduce "venture leasing", an asset backed debt instrument with equity participation to the European and Israeli market. With offices in London, Tel Aviv and Stockholm, the company has successfully invested over \$200,000,000 in various early stage companies. He remains active spending up to ten days monthly in Europe and has been able to return superior returns to investors despite a major private equity downturn. Mr. Woolley serves as an advisor on the boards of Polaris Ventures, Euclid SR Partners, and Von Braun & Schrieber Private Equity. He provides advice on strategy, fundraising and is an investor in these well known funds. He is very active in Eccles Business School at the University of Utah where he chairs a program to make the school a top entrepreneurial business school in the next seven years. This includes his Chair role of the University Venture Fund that is an independent non-profit, with student associates managing the fund. Raising a \$20,000,000 fund, students work with well established venture and buy-out funds to perform due diligence on prospective investments. Mr. Woolley has been active with many worthy non-profits. For four years, he was Chairman of the NAMES Project Foundation, the caretaker of the AIDS Memorial Quilt. During his tenure, the organization organized forty local chapters, with over 20,000 volunteers and was able to raise multi million dollars to sustain the organization. He is on the board of Unitus, a microfinance non-profit that provides small loans to the world in very developing countries including: India, Bolivia, Mexico and South Africa. Geoff was active in the 2000 presidential election and took an active "co-chair" role in the Gore 2000 campaign. Mr. Woolley holds an MBA degree from the University of Utah and a BS in Business Management from Brigham Young University

Edward Alter: Former Treasurer, State of Utah (1980-2008).

Prior to joining the UCIC, Mr. Alter served as a board member of the Utah Capital Investment Board (UCIB), and recently completed 28 years as Utah State Treasurer, electing to retire at the end of last year. As Treasurer, Mr. Alter's major responsibilities included cash management and investment of state funds and selling general obligation and revenue bonds. Alter's tenure as Utah's Treasurer encompassed seven four-year terms. First elected in 1980, he served in the administrations of five governors, on both sides of the aisle: Democrat Scott Matheson and Republicans Norman Bangerter, Michael Leavitt, Olene Walker and Jon Huntsman Jr. Alter played a significant role in helping build Utah's economy into one of the nation's most solid and dynamic, for which he garnered numerous honors and accolades. He was recognized nationally for his innovative leadership in public financial management, including: Elected as President of the National Association of State Treasurers in 1986, Named by City and State magazine to its All-Pro Government Team in 1988. Received the first Jesse M. Unruh award for treasury excellence from the National Association of State Treasurers in 1989. Alter has been a member of the Utah State Retirement Board since 1981, and has served as President of the Board for nine years. He is also a member of the State Bonding Commission, the Private Activity Bond Review Board and the Utah Housing Finance Agency Board. Prior to his election as state treasurer, Mr. Alter was the assistant treasurer for the University of Utah (1972-1980). He began his career in the public accounting profession as a senior accountant in Los Angeles (1967-1972), where he became a CPA.

Peggy Wallace: Vice President, America First Credit Union; former Utah State Representative and lead sponsor of UFOF legislation.

Peggy Wallace currently serves in the capacity of vice president for America First Credit Union, one of the nation's largest and most successful credit unions. A Utah native, Ms. Wallace has worked almost forty years in positions of increasing responsibility and influence within the financial services industry. Prior to her current role, she has served as: operations officer for United California Bank; senior operations officer for American Savings and Loan's Southern Division; and associate vice president over Savings Administration for Beverly Hills Savings. Ms. Wallace has served on numerous professional and community boards, and currently serves on: the Utah Cooperative Alliance; Utah Professional Republican Women; Republican Women's PAC; as a long-standing Development Education board member with the World Organization of Credit Unions; and on the public policy committee for the Utah Technology Council (UTC). From 2001 through 2006, Ms. Wallace served as the Representative for West Jordan in the Utah Legislature, where she chaired the commerce and revenues sub-appropriations committee for two years; was vice chair of Workforce Services for two years; and sponsored UFOF legislation (Utah Venture Capital Enhancement Act).

Richard Nelson: President & CEO, Utah Technology Council (UTC); president, national Council of Regional Information Technology Associations.

Richard Nelson is the President and Chief Executive Officer of the Utah Technology Council (UTC, formerly UITA), the premier industry-driven, high-tech professional organization in the state. UTC is recognized also as one of the top information technology councils in the country. He has represented the Utah's IT industry since 1999, with highlights ranging from leading the successful passage of the \$100 million Fund of Funds

Bill in the 2003 Legislature to providing industry testimony before the United States Senate Judiciary Committee. He likes to refer to his industry role as the "community builder" in fostering Utah's highly-recognized IT community -- with over 2600 IT companies. Mr. Nelson has an MBA from Northwestern University in marketing and finance and a Bachelor of Science Degree from Brigham Young University. In 2000, Governor Leavitt appointed him to the state's Board of Business and Economic Development.

Bret Jepsen: Director of Venture Capital and Private Equity

Bret Jepsen is a principal with Northgate Capital. He has over a decade of private equity and venture capital experience, and was most recently Acting Director of Venture Capital, Small Buyout and Emerging Market investing for the City of San Francisco's Investment Office. While at San Francisco, Bret established a portfolio of several top-tier, oversubscribed venture capital funds and created a secondary program designed to enhance returns by acquiring less-risky, pre-identified private equity assets. In addition to serving as an advisor to many venture capital and private equity funds, Bret is on the board of the Utah Capital Investment Corporation, a \$300 million economic development program. Bret has spoken regularly at industry events including the IBF Venture Capital conferences, Merrill Lynch Private Equity CFO Conference, ICBI Super Return China Conference, University Venture Fund Summit and Silicon Valley SDForum. Prior to his work for the City of San Francisco, Bret worked at Connecticut-based Portfolio Advisors, LLC, where he helped build and monitor private equity programs for various foundations and pensions. Bret also gained direct investment experience while working for Dominion Ventures, LLC. Bret received his BA from Brigham Young University and an MBA from Northwestern's Kellogg School of Management, where he co-authored a case study on the private equity secondary industry.

Mel Lavitt UCIC Board Member

Mr. Lavitt's professional career in investment banking has included hundreds of capital market transactions accounting for several billion dollars of equity and debt financing. In July of 2007, Mr Lavitt was Vice Chairman and Managing Director of C.E. Unterberg, Towbin, when it was purchased by Collins Stewart, LLC. Upon completion of the transaction, he formed Lavitt Group, LLC to advise private and public companies in finding and securing financing, structuring and negotiating investment terms and advising on investor marketing strategy. As of January 2009 he became a Senior Advisor with Needham and Company, LLC. His focus is on investment banking and M&A opportunities with companies and entrepreneurs where he has relationships, primarily, but not exclusively in Utah. He started his career in investment banking in 1959 at Bear Stearns and then joined C.E. Unterberg, Towbin in 1962. In 1977, C.E. Unterberg, Towbin merged with L.F. Rothschild to form L.F. Rothschild, Unterberg, Towbin Inc. From 1977 to 1986, he was a general partner and administrative managing director of that firm. From June 1987 to August 1992 Mr. Lavitt had a financial advisory business, Lavitt Management Inc. In August of 1992 he became a managing director for Unterberg, Harris, which, in 1997, became C.E. Unterberg, Towbin until purchased by Collins Stewart, LLC in 2007. His current activities as a Senior Advisor to Needham & Company LLC, member of the Board of Directors at Jabil Circuit and member of the Board of Directors of the Utah Governor's Office of Economic Development provides him with the opportunity to be active, knowledgeable and up to date regarding current business trends.

Ed Esber UCIC Board Member

Ed Esber has over thirty-five years experience in the computer industry working for IBM, Texas Instruments and as CEO of Ashton Tate and COO of Creative Labs. He was either a founder, executive or board member of several startups including VisiCorp, Creative Insights, SoloPoint, Motion Computing, Blue Roads Software, Poqet Computer and Pocket.com.

As a PC industry pioneer, he pioneered the marketing and distribution of retail, packaged software and developed the marketing strategies for VisiCalc and dBase; two of the world's best selling PC software packages of the 1980's. He marketed the first spreadsheet, the first office suite and the first Wintel graphical user interface. After pioneering work in personal computer software, he did seminal work on the integration of computers and multimedia at Creative Labs, the integration of computers, toys and learning at Creative Insights, the integration of computers, communication and telephony at SoloPoint, the mobilization of email and internet access at Pocket.com and personal computer mobility first at Poqet Computer and then at Motion Computing, a tablet-PC company.

He has served on the board of directors of over thirty public, private and non-profit boards. He currently serves on the board of directors of Quantum Corp, Panterra Networks and iTaggit. He is currently co-chair of the emeriti Trustee committee of the Case Western Reserve University Board of Trustees after serving as a trustee for over sixteen years.

His education includes a B.S. Computer Engineering from Case Western Reserve University, a M.S. Electrical Engineering from Syracuse University and an MBA from Harvard Business School.

Utah Capital Investment Board (UCIB)

The *Utah Capital Investment Board (UCIB)* is a State of Utah government board with membership determined by government position or State Governor appointment with Senate approval. UCIB is the state oversight board responsible for overseeing UFOF State of Utah tax credits, and plays a crucial role in overseeing UFOF financing and reporting the program's status to the Utah legislature. All UCIB board members volunteer their time and expertise, without receiving pay. Current UCIB board members include:

Robert P. Majka (UCIB Chairman): CEO, Marlin Bank.

Mr. Majka has more than 30 years management experience in the consumer and commercial lending industry. Mr. Majka was an Executive Vice President with Associates Corporation that merged with Citigroup in late 2000. At the time of the merger, Associate Corporation was one of the nation's largest "subprime" lenders, had \$29.7 billion in outstanding loans in its consumer finance portfolio, serviced 480,000 home equity loans, and had nearly 3 million personal loans. Mr. Majka was the President and CEO of Associates Capital Bank, Inc. prior to the Citigroup merger and was a Vice President with Croker National Bank prior to joining the Associate Corporation. Upon leaving Citigroup and returning to Utah, Mr. Majka has been involved as a Board of Trustee with the Catholic Foundation of Utah, a Director with the Volvo Commercial Credit Corp. and participated in Junior Achievement Economics at Alta High School.

Richard Ellis: Treasurer, State of Utah.

Richard Ellis was elected State Treasurer November 4, 2008 and took office January 5, 2009. As State Treasurer, he is responsible for the treasury and cash management functions of the state, investment of state funds and the Public Treasurers Investment Fund, the issuance of all general obligation and revenue bonds authorized by the legislature, and administering the unclaimed property program. The State Treasurer also sits on various boards and commissions as required by statute. These assignments include the Utah Retirement System Board, Private Activity Bond Authority, Utah Science Technology and Research (USTAR) Board, Utah Capital Investment Board, Community Impact Board, Utah Communications Agency Network Board, State Bonding Commission, State Building Ownership Authority, State Charter School Finance Authority and several other boards and commissions. Prior to becoming State Treasurer, Mr. Ellis served nine years as the Chief Deputy State Treasurer under his predecessor, Ed Alter. Mr. Ellis's other state experience includes three years as the Director of the Governor's Office of Planning and Budget under Governors Jon M. Huntsman, Jr. and Olene S. Walker, and a stint as the Executive Director of the Department of Administrative Services. His career has focused on public finance with experience as the first Finance Director for Draper City, an investment banker with Dougherty, Dawkins, Strand & Bigelow, and as the Assistant Treasurer with the Jordan Valley Water Conservancy District. In total, Mr. Ellis has over 24 years of experience in public finance. Mr. Ellis received his Master of Business Administration degree from the University of Utah in 1990. He completed his undergraduate work at Brigham Young University where he received a Bachelor of Science degree in Business Management with a Finance emphasis. He currently is an adjunct faculty member of the Marriott School of Business at BYU and teaches a class in Cash Management and Investments for the Romney Institute. Mr. Ellis was born and raised in Klamath Falls, Oregon. He and his wife, Joyce, have lived in West Jordan, Utah for nearly 20 years where they have raised their six boys.

Spencer P. Eccles Utah Governor's Office of Economic Development.

Spencer P. Eccles is the Executive Director for the Governor's Office of Economic Development. Mr. Eccles oversees efforts to bring targeted businesses to Utah and assist in the expansion of existing Utah businesses. Mr. Eccles is a business-school graduate of Brigham Young University and has extensive experience in Utah's business realm and beyond it.

Eccles worked for Wells Capital Management in Salt Lake City and has been involved with various American and international technology companies, as well as managing three ranch operations in Idaho and Wyoming and the Goldener Hirsch Inn in Deer Valley.

During the 2002 Winter Olympics in Utah, he managed development of the Snow Basin venue and oversaw the events there, and he has served on many community boards, as well. He is president of First Security Foundation and advises The George S. and Dolores Dore Eccles Foundation. He is the son of well-known Utah businessman and philanthropist Spencer F. Eccles.

Taylor Randall Dean of David Eccles School of Business

Mr. Taylor Randall is the David Eccles School of Business Dean. Randall, served as associate dean of academic affairs and is a member of the Accounting Department faculty. In taking the David Eccles School of Business reins, he followed in the educational executive

footsteps of his grandfather, Clyde Randall, who was the school's dean in the 1960s, as well as his father, Reed Randall, a former director of the School of Accounting.

Randall has served as the faculty director for the University Venture Fund since 2003, during which time the Venture Fund has become the largest independent student-run venture in the country at over \$18.3 million. He has accepted invitations to serve as a visiting faculty member at INSEAD, the Wharton School of Business, and Washington University.

Samuel Straight

Sam Straight is a shareholder at Ray Quinney & Nebeker in the Firm's litigation section. His practice focuses on intellectual property litigation, including patent, trademark, trade secret and copyright matters from pre-litigation enforcement through trial. He works with high-technology and other companies in the protection of their intellectual property rights, and defense against claims of infringement. Mr. Straight also represents clients in a wide variety of other commercial litigation, including securities, shareholder derivative, and appellate litigation matters. He also has extensive experience with litigation involving the direct selling industry.

Mr. Straight also advises clients regarding compliance with federal and state economic regulations, including Federal Trade Commission regulations, and export control and economic sanctions regulations. In addition, he is a registered lobbyist in Utah and has represented clients in matters before a variety of legislative bodies and administrative agencies.

Mr. Straight is the Hiring Partner and chair of the Firm's Recruiting Committee.

Mr. Straight was recognized in Chambers USA in Intellectual Property Law, and maintains an AV Preeminent (4.6) rating with Martindale-Hubbell, which is the highest rating awarded to attorneys for professional competence and ethics. He has also been selected for inclusion in Mountain States Super Lawyers in the category of Intellectual Property Litigation. Mr. Straight has been included on the list of The Best Lawyers in America in Intellectual Property Law and has also been voted by his peers throughout the state as one of Utah's "Legal Elite" in the category of Intellectual Property (as published in Utah Business Magazine).

Investment Approach/Goals:

In 2005, before any investment decisions were made, and again in 2008, the Utah Capital Investment Corporation (UCIC) commissioned a comprehensive research and analysis of Utah's business environment looking at several specific areas, including start-ups, growth companies, venture capital and buyout financings, angel groups and banking options. The analysis aimed to accomplish four goals: 1) Assess Utah's start-up and growth company market environment and potential sources of deal flow; 2) Identify Utah's gaps in funding spectrum by stage and industry; 3) Analyze gaps to understand why they exist and what, if anything, UFOF can do to help close them; and 4) Develop initial ideas set for UCIC Board consideration.

The key findings from the assessment report included:

- 1) Utah's capital pool is shallow across the board, with relatively few funds and limited capital to invest;
- 2) Life sciences/genetics is especially thin and needs more sources of capital;
- 3) Early seed and venture capital and expansion stages were likewise especially thin; and
- 4) Utah relies on national funds to lead later stage deals, yet national funds have no commitment to Utah.

The UCIC board, in consultation with its advisors, set a strategy aimed at resolving the problems found by the assessment report. The UCIC established a diversified "three-pronged strategy" as follows: 1) Support the existing local firms; 2) Assist in the creation of new Utah-based firms; 3) Recruit regional and national firms to partner with UFOF to provide needed expertise, capital and networking.

UCIC will also seek to focus on three additional areas: industry, stage of investment, and vintage year. In the area of "Industry," the assessment report discovered that 83 percent of Utah start-up investments occurred in the IT/Technology and Life Science, so the UCIC strategy was to seek investment in firms that focused on these two areas. A third industry, consumer products, was also added. With regard to "Stage," UCIC aimed to invest in seed/early stage, mid/expansion stage, mezzanine/late stage and buyout. Finally, with regard to "Vintage" year, UCIC seeks vintage year diversification. See below for details on how UFOF portfolio, as of yearend 2008, is accomplishing its investing goals.

Portfolio Approach:

The mission of UFOF, created by the Utah Legislature through the passage in 2003 of House Bill 240 - the Venture Capital Enhancement Act - is to increase the amount, quality and diversity of capital funding available to help the state's early-stage and growth companies to grow, prosper and mature in Utah. To fulfill this mission, UFOF evaluates quality venture firms in and outside Utah, with the assistance of the program's professional investment advisor, LP Capital Advisors.

While UFOF program has legislatively been advised not to invest its capital in first-time venture investors, it may consider investing in first-time firms whose partners have established a track record of sound investments and successful returns in other firms. In addition, the program has determined not to require its portfolio firms to open an office in the state, or contractually bind them to commit to invest specified dollar amounts in Utah companies. It does, however, regularly require partners of

its portfolio firms to commit to spending time in Utah meeting with companies and entrepreneurs, and/or to make themselves available for Utah executives to visit them at their offices.

In addition UFOF focuses on helping portfolio fund identify Utah companies for investment through the matchmaking efforts. Utah companies are interviewed by UFOF staff and email, phone call or in-person introductions are made to portfolio members if a Utah company is deemed a good fit. UFOF conducts conferences that bring portfolio members and other venture capitalists in our network to the state to educate and explore deal flow. The Annual Spring Medical Device is a great success and had gained tracking over the last three years.

The primary rationale for these decisions is to maximize investment returns and access to primary decision makers at the firms. Research and experience indicates that requiring offices or investment clauses results in a lack of interest from the nation's best-networked, successful investors. Furthermore, when a firm agrees to a strong in-state requirement these firms tend to send junior professionals (without a vote on investment decisions) to fulfill their in-state time commitments. UFOF is committed to obtaining successful investors and partner-level attention for Utah.

In August of 2011, the UCIC board held an all day retreat to evaluate the continued program goals and objectives going into 2012. Refinancing to lower costs was key to the development of a new and improved strategy going forward. The board also recognized that there is a strong existing demand to bolster capital sources in support of the competitive ecosystems already developed in the state such as Information Technology and Software, Life Sciences and Medical Devices, Energy and Aerospace. New investments in funds will consider these industries as core to the investment strategy going forward and coordination with GOED, EDCU, USTAR and the Governor's Economic Counsel will be key to any effective strategy moving forward in 2012.

UFOF Portfolio

At year end 2011, UFOF portfolio consisted of 28 separate investment firms with investment mandates, ranging from seed stage to later-stage growth to buyout; and across a variety of industry focuses including a concentration in information technology and life sciences., . UFOF is developing a diversified portfolio regarding investment stage, industry specialty, geographic focus (in addition to Utah). <http://utahfundoffunds.com/portfolio.html>

SV Life Sciences Fund IV, L.P.: \$550 million. Founded in 1993 as Schroder Ventures Life Science, SV has offices in Boston, San Francisco and London. The firm focuses on multi-stage investments across the life sciences sector. Managing partners include David Milne, Michael Ross, Ph.D., Lutz Geibel, Jim Garvey and Eugene Hill. Leading co-investors include Abingworth Management, Aisling Capital, Alta Partners, Carlyle Group, MPM Capital, Oak Investment Partners, Orbimed, Oxford Bioscience Partners, Prospect Venture Partners, Three Arch Partners and Versant Ventures.

Cross Creek Capital, L.P. Fund I: Utah based. \$111 million. Based in Salt Lake City, Cross Creek is new Utah based fund and the venture capital investment arm of Wasatch Advisors. The firm focuses on late-stage investments across a broad spectrum of industries. Managing directors include Karey Barker, Greg Bohlen, Robert Gardiner and Samuel Stewart. Leading co-investors include Arch Venture Partners, Domain Associates, Meritech Capital Partners, New Enterprise Associates and Questmark Partners.

Rosewood Capital V, L.P.: \$295 million. Rosewood Capital, based in San Francisco, was founded in 1985 and focuses on expansion-stage growth companies, primarily in the consumer, retail and business & financial services sectors. Managing directors include Chip Adams and Kevin Reilly; Carl Peterson serves as vice president. Top co-investors include Bain Capital, Benchmark Capital, Carlyle Group, Catterton Partners, Goldman Sachs, Kleiner Perkins, Sutter Hill Ventures, Technology Crossover Associates and Venrock Associates.

RWI Ventures II, L.P.: \$65 million. Founded in 2000, RWI Ventures focus is on multi-stage investments in the technology and healthcare (medical devices) sectors. Managing directors include Donald Lucas, William Baumel and Mark Foley. Leading co-investors include Alloy Ventures, Canaan Partners, Delphi Ventures, DeNovo Ventures, Frazier Healthcare Ventures, Foundation Capital, Invesco, Kleiner Perkins, Meritech Capital Partners, Prism VentureWorks, Venrock Associates and Warburg Pincus.

University Venture Fund: Utah based. \$18 Million. Based in Salt Lake City, University Venture Fund is a new Utah fund, founded in 2005 to provide students exposure to the venture capital industry, perform due diligence and serve as a source of quality deal flow to co-investing firms. Its focus is early-stage co-investments with its network of funds across a broad spectrum of industries. Major co-investors include Bain Capital, Canaan Partners, Draper Fisher Jurvetson, Intel Capital, Thomas Weisel Partners, UV Partners, vSpring Capital and Wasatch Venture Fund.

vSpring II, L.P.: Utah based. \$85 Million. Founded in 2000, vSpring focuses on seed and early stage investments in the technology and life science sectors, primarily in the Intermountain West. Managing directors include Dr. Dinesh Patel, Ed Ekstrom, Paul Ahlstrom and Scott Petty.

5AM Ventures II, L.P.: \$150 Million. With offices in San Francisco and Boston, 5AM focuses on seed and early-stage life science investments. Managing partners include John Dickman (founder), Scott Rocklage and Andrew Schwab (founder). Leading co-investors include Delphi Ventures, Frazier Healthcare, Polaris Ventures, Three Arch Partners, Venrock Associates and Versant Ventures.

Highway 12 Ventures II, L.P.: \$75 Million. Founded in 2000 and based in Boise, Highway 12 is a Village Ventures network affiliate. Its focus is on seed, early, and expansion stage investments in the Intermountain West, across a broad spectrum of industries. Partners include Mark Solon, Phil Reed, Mike Mers and Matthew Warta. Leading co-investors include UV Partners, InQTel, Shasta Ventures and Battery Ventures.

Apax US VII, L.P.: \$850 million. Based in New York City, Apax Partners is one of the world's leading private equity investment groups. It operates across the United States, Europe, Israel, and Asia and has more than 30 years of investing experience. Funds under the advice of Apax Partners total \$20 billion around the world. Apax Partners Funds invest in companies across its global sectors of Tech & Telecom, Retail & Consumer, Media, Healthcare and Financial & Business Services.

Media Technology Ventures V (Allegis Capital): \$125 million. Allegis Capital invests in early stage companies developing enabling technology and software to serve emerging markets. Specific areas of interest include: enabling hardware devices, enterprise software solutions, broadband and wireless delivery techniques, and Internet infrastructure and services.

Clarus Ventures II, L.P.: \$660 million. Clarus Ventures is a life sciences venture capital firm based in San Francisco. Clarus augments its core expertise of investing in biopharmaceuticals and medical technology companies with the deep and diverse expertise of the team in research and development, commercialization, business development and operations management at the global level.

Epic Venture Fund IV, L.L.C.: Utah based. \$100 million. Based in Salt Lake City, Epic focuses on early stage information technology and life sciences investments. The Firm concentrates investments in the western United States.

Fenway Partners III: \$702 million. Based in New York, Fenway is a Buyout Fund focused on transportation logistics and brand development. Fenway provides portfolio companies financial, operational and human resources to assist managements in executing the companies' strategic plans.

Foundry I L.L.C.: \$225 million. Based in Boulder, Colorado, Foundry is focused on seed and early stage information technology companies across the United States. Foundry Group is typically the first institutional investor in the companies in which they invest, and they are comfortable participating in seed-level financings. Though Foundry is early-stage investors, their expectation is that they will continue to fund its companies throughout their lifecycles.

Frazier Healthcare VI L.P.: \$600 million. Founded in 1991 with more than \$1.2 billion of capital under management, Frazier Healthcare is one of the nation's leading providers of venture and growth equity capital to emerging healthcare companies. Frazier is invested in more than 90 emerging healthcare companies

Hummer Windblad IV, L.P.: \$183 million. Based in San Francisco, Hummer Winblad focuses on SaaS technology, telecom and analytics. The original Hummer Winblad Venture Partners was founded in 1989 as the first venture capital fund to invest exclusively in software companies.

Mercato Partners, L.P.: **Utah based.** \$150 million. Mercato Partners, based in Salt Lake City, invests in growth equity deals within the small and middle-market sectors, focusing on companies that have recurring revenue models and near-term product launches. Mercato will invest between \$5 to \$7 million per growth equity transaction with follow-on structures. Mercato is stage agnostic.

Blackstone GSO: \$3.25 billion. GSO Capital Partners LP, is one of the largest credit-oriented alternative asset managers in the world and a major participant in leveraged finance. GSO focuses on providing privately negotiated “capital solutions” to companies in need of liquidity or significant capital structure transformation due to pending covenant violations, debt maturities, cyclical downturns in their businesses or other funding requirements. This strategy combines GSO’s distressed, credit and trading expertise with Blackstone’s private equity capabilities.

TriVentures: \$30 million. TriVentures is an investment firm that brings the best attributes of a venture fund and a device accelerator. They invest capital in early stage medical device companies and leverage their unique blend of clinical, technical and strategic expertise to successfully develop and transition their portfolio companies in Israel. University of Utah Adjunct professor Peter Fitzgerald and Dr. Marty Leon with partner Michal Geva run the \$25.6 Million fund out of Tel Aviv. Utah retains first right of refusal on medical device companies exiting Israel for the US markets.

Pine Brook Road Partners I, L.P.: \$1.43 billion. Pine Brook Road Partners was founded in 2006, is a New York-based private equity firm focused on growth capital investments in the energy and financial services industries. The Firm is led by Howard Newman, President and CEO. He is supported by four other co-founders: Michael McMahon, William Spiegel, Robert Glanville and Joseph Gantz, who have over 100 years of experience of investing in, advising and operating businesses in the energy and financial service industries.

Shasta Venture Group II: \$250 million. Based in Menlo Park, California, Shasta invests in early stage, where it can help entrepreneurs the most—either the first or second round of a company’s fundraising. An initial investment ranges from \$250,000 to \$6 million. Shasta can participate in follow-on rounds for a total investment per company of up to \$12 million. Shasta is primarily interested in companies located in the western United States.

Sorenson Capital II: **Utah based.** \$400 million. Sorenson, based in Salt Lake City, focuses on small to mid-market buyouts as well as growth-equity investments in the Mountain West region.

UpStart Life Sciences Capital, L.P.: **Utah based.** \$20 million. Upstart is a Salt Lake City-based fund that invests in start-up and early stage healthcare companies. Most of the start-ups are based on breakthrough technologies from major research universities in Utah and nearby states.

UV Partners IV: Utah based. \$100 million. Established in 1986 with offices in Salt Lake City and Los Angeles, UV Partners is an early-stage information technology and life sciences venture group. UV Partners focuses investments in the western United States.

Ares Corporate Opportunities Fund III. \$3.5 billion. ACOF pursues opportunistic majority or shared-control investments, principally in under-capitalized middle market companies. The fund seeks strong business franchises that have attractive growth opportunities, but are capital constrained in some way. The Senior Partners of the fund average more than 20 years of experience investing in controlling, advising, underwriting and restructuring leveraged companies.

TA Associates XI. \$4 billion. Founded in 1968, TA Associates is one of the oldest and largest private equity firms in the world. The fund invests in private companies in exciting industries, with the goal of helping management teams build their businesses into great companies. This mission has been at the heart of TA's approach to investing, and our more than 400 current and former portfolio companies illustrate our commitment to provide steady support through the cycles of the global economy. TA partners with managers of growth companies to help build outstanding businesses. The fund focuses on profitable businesses with strong management teams. TA provides flexible financial structures that are driven by company and management objectives.

Khosla Ventures II. \$1 billion. Founded in 2004 by information technology icon Vinod Khosla, Khosla Ventures invests in next-generation energy projects, new materials, mobility, the Internet and silicon technology.

New Enterprise Associates. \$2.5 billion, NEA provides venture capital to help innovative entrepreneurs and business leaders build transformational, industry-leading companies around the world. Industry focus includes information technology, healthcare, and energy.

Portfolio Firms' Commitments to Utah

UFOF regularly requires a rigorous commitment by funds' senior management to spend a considerable and specified amount of time in Utah, meeting with companies and entrepreneurs in the state. As a condition of receiving UFOF investment, out-of-state portfolio funds commit to a significant ongoing investment of their partners' time and mindshare in the state.

UFOF' portfolio investment firms have invested hundreds of millions of dollars in promising Utah companies, resulting in the creation of thousands of high-quality jobs. These Utah companies have raised hundreds of millions of dollars in aggregate. In addition, the program's officers and board members provide other Utah companies with investor introductions and assistance in obtaining financing from non-portfolio funds. Updated impact statistics from UFOF can be found on the program's Website www.utahfof.com.

In addition to the tangible economic benefits, UFOF is making equally important intangible contributions, including:

- Fostering relationships with a growing number of influential investors throughout the United States, not only for UFOF program, but also for Utah companies and entrepreneurs
- Increasing awareness and credibility of Utah and its companies and entrepreneurs among key influencers in the national and global investment community
- Boosting confidence among Utah's entrepreneurial community in the present and future of the state's companies and economy
- Hosting industry specific Conferences (Medical Device and Middle Market)
- Conducting entrepreneur training courses and workshops

As UFOF progresses alongside the state's entrepreneurial community and economy through future funding rounds, the program will continue to broaden the depth and breadth of its influence, and to empower a growing number of Utah entrepreneurs and companies to propel Utah's economic development for the foreseeable future.

IRR – J Curve:

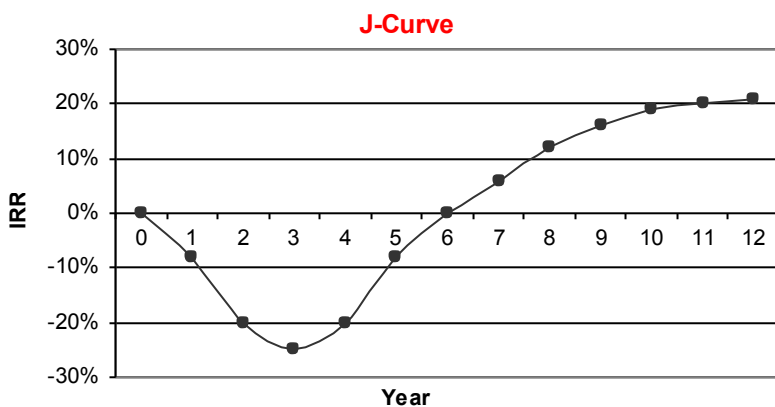
The “J” Curve

The “J” curve shows a fund’s internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the “J” curve illustration below.

By the second half of a fund’s life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

- The first few years or so give little, if any, indication of final returns
- The annual return over any single year is relatively meaningless
- The IRR over the life of the fund is the real measure of a fund’s success

Primary Source: Monbray Capital



For more information about the Utah Fund of Funds, visit <http://www.utahfof.com> or call Matt Peterson at 801.931-4557.

UTAH FUND OF FUNDS, LLC

FINANCIAL STATEMENTS

December 31, 2011

WISAN, SMITH, RACKER & PRESCOTT, LLP

C E R T I F I E D P U B L I C A C C O U N T A N T S

INDEPENDENT AUDITORS' REPORT

Chairman of the Board
Utah Capital Investment Corporation
Members
Utah Fund of Funds, LLC
Salt Lake City, Utah

We have audited the accompanying balance sheet, including the schedule of investments, of Utah Fund of Funds, LLC (the Fund) as of December 31, 2011, and the related statements of operations, cash flows, and members' equity for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Utah Fund of Funds, LLC as of December 31, 2011, and the results of its operations, cash flows, and members' equity for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2012, on our consideration of Utah Fund of Funds, LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Wisan Smith Racker & Prescott, LLP

Salt Lake City, Utah
July 31, 2012

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LICENSED TO PRACTICE IN UTAH, WYOMING, NEVADA, NEW MEXICO AND IDAHO

UTAH FUND OF FUNDS, LLC
BALANCE SHEET
December 31, 2011

ASSETS

CURRENT ASSETS

Investments at estimated fair value (cost - \$68,529,181)	\$89,568,995
Cash and cash equivalents	<u>2,309,828</u>

TOTAL ASSETS \$91,878,823

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES

Accrued expenses	\$ 17,714
Payable to Utah Capital Investment Corporation	264,748
Payable to Utah Fund of Funds II, LLC	176,383
Payable to DBAH Capital, LLC	<u>577,534</u>

TOTAL LIABILITIES 1,036,379

MEMBERS' EQUITY

Managing member	-
Regular member	<u>90,842,444</u>

TOTAL MEMBERS' EQUITY 90,842,444

TOTAL LIABILITIES AND MEMBERS' EQUITY \$91,878,823

The accompanying notes are an integral part of the financial statements.

UTAH FUND OF FUNDS, LLC
STATEMENT OF OPERATIONS
Year ended December 31, 2011

INCOME	
Realized gain on investments	\$ 60,287
Interest income	3,335
	<u>63,622</u>
	TOTAL INCOME
EXPENSES	
Management fees	445,718
Professional fees	363,765
Operating expenses	1,226
Other expenses	444,459
	<u>1,255,168</u>
	TOTAL EXPENSES
	NET INVESTMENT LOSS (1,191,546)
NET CHANGE IN UNREALIZED APPRECIATION ON INVESTMENTS	<u>14,385,087</u>
NET INCREASE IN MEMBERS' EQUITY	
RESULTING FROM OPERATIONS	<u>\$13,193,541</u>

The accompanying notes are an integral part of the financial statements.

UTAH FUND OF FUNDS, LLC
STATEMENT OF CASH FLOWS
Year ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Net increase in members' equity resulting from operations	\$ 13,193,541
Adjustments to reconcile net increase in members' equity resulting from operations to net cash used by operating activities:	
Realized gain on investments	(60,287)
Net change in unrealized appreciation of investments	(14,385,087)
Changes in operating liabilities:	
Accrued expenses	(119,787)
Payable to Utah Capital Investment Corporation	4,973
Payable to Utah Fund of Funds II, LLC	(10,670,576)
Payable to DBAH Capital, LLC	140,077
Net cash used by operating activities	<u>(11,897,146)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash paid for purchases of investments	(18,092,388)
Cash distributions from investments	13,309,530
Net cash used by investing activities	<u>(4,782,858)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contributions received	25,000,000
Distributions to members	(6,096,711)
Net cash flows from financing activities	<u>18,903,289</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	
	2,223,285
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	
	<u>86,543</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	
	<u><u>\$ 2,309,828</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid for interest	<u><u>\$ 458,658</u></u>

The accompanying notes are an integral part of the financial statements.

UTAH FUND OF FUNDS, LLC
STATEMENT OF MEMBERS' EQUITY
Year ended December 31, 2011

	<u>Managing Member</u>	<u>Regular Member</u>	<u>Total Members' Capital</u>
Balances at December 31, 2010	\$ -	\$58,745,615	\$58,745,615
Capital contributions	-	25,000,000	25,000,000
Distributions	-	(6,096,712)	(6,096,712)
Net investment loss	-	(1,191,546)	(1,191,546)
Net change in unrealized appreciation on investments	<u>-</u>	<u>14,385,087</u>	<u>14,385,087</u>
Balances at December 31, 2011	<u><u>\$ -</u></u>	<u><u>\$90,842,444</u></u>	<u><u>\$90,842,444</u></u>

The accompanying notes are an integral part of the financial statements.

UTAH FUND OF FUNDS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Utah Fund of Funds, LLC (the Fund) conform to accounting principles generally accepted in the United States of America (GAAP). The following policies are considered to be significant:

Business Activity

The Fund is a limited liability company organized under the laws of the State of Utah. The Fund commenced operations on March 16, 2006. The Fund is scheduled to terminate on the earlier of March 16, 2105 or the occurrence of an "Event of Dissolution" as specified in the Amended and Restated Limited Liability Company Agreement (the Agreement).

The Fund is a \$100 million State of Utah economic development program aimed at providing access to alternative or non-traditional capital by Utah entrepreneurs. The Fund does not invest money into any company or individual but rather invests in venture capital and private equity funds that commit to establishing a working relationship with the Fund and with Utah's start-up and business community, and making investments in qualified companies. The Fund invests in venture capital and private equity funds located both in Utah and outside of Utah. As of December 31, 2011, the Fund's portfolio of funds had 28 investments in Utah companies.

The Managing Member is Utah Capital Investment Corporation (a Utah quasi-public non-profit corporation) (the Managing Member). The Managing Member was created upon the enactment of the Utah Venture Capital Enhancement Act to establish and provide management services to the Fund.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

Contributed Capital

Total capital committed to the Fund as of December 31, 2011 was \$100,000,000, all of which had been contributed as of December 31, 2011.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with original maturities of less than three months.

UTAH FUND OF FUNDS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

The Fund's financial instruments that are exposed to concentrations of credit risk consist primarily of cash deposits.

The Fund maintains its cash deposits at financial institutions. At times such deposits may exceed federally insured limits. The Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Investment Valuation

Investments are stated at estimated fair value as determined by the Managing Member. The financial statements include investments valued at \$89,568,995 as of December 31, 2011, whose fair values have been estimated by the Managing Member in the absence of readily ascertainable market values. The fair values assigned to the investments where no market quotation exists are based upon available information from third-party issuers but may not necessarily represent amounts that will ultimately be realized. Because of the inherent uncertainty of valuations, estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Gains or Losses on Investments

Unrealized gains and losses on investments reflect the difference between fair value and cost basis.

Realized gains and losses on investments are recognized in the period of disposal or exchange and are measured by the difference between the proceeds of the sale or the fair value at the date of distribution and the cost basis of the investment.

Distributions

The Agreement provides for discretionary and mandatory distributions to be made during the term of the Fund.

Distributions are to be made at least semi-annually to DBAH Capital, LLC (the Regular Member) and the Regular Member is to receive 100% of the "Commitment Fee" (0.20% of the capital contributed, compounded annually) and 100% of the "Undistributed Preferred Dividends" (6.8% of the capital contributed, compounded annually) and any related "Default Interest" to and including June 1, 2021.

Mandatory distributions are scheduled to begin on June 1, 2017 and on each of the next four anniversaries to redeem the Regular Member's "Unrecovered Capital Balance" according to a prescribed formula in the Agreement.

Organization Costs

Organization costs incurred with the formation of the Fund were expensed in the period incurred.

UTAH FUND OF FUNDS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Profits and Losses

The Agreement provides for the allocation of profits and losses to be allocated among Members such that the Members would receive distributions equivalent to the distributions that would be received if the Fund were dissolved.

Income Taxes

The results of operations of the Fund are includable in the taxable income of the individual members and, accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

Subsequent Events

Management of the Fund has evaluated subsequent events through July 31, 2012, which is also the date the financial statements were available to be issued. No subsequent events were noted during this evaluation that required recognition or disclosure in these financial statements, except those discussed in Note 6.

NOTE 2 - RELATED PARTY TRANSACTIONS

Under the Agreement, the Fund pays the Managing Member management fees for reasonable expenses incurred by the Managing Member in providing management services to the Fund. For the year ended December 31, 2011, management fee expense to the Managing Member totaled \$445,718. As of December 31, 2011, the Fund owed \$264,748 to the Managing Member.

Under the Agreement, the Fund pays the Regular Member a "Commitment Fee" of 0.20% compounded annually of the total capital contributed by the Regular Member. For the year ended December 31, 2011, commitment fee expense to the Regular Member totaled \$31,704. As of December 31, 2011, the Fund owed \$577,534 to the Regular Member.

As of December 31, 2011, the Fund also owed \$176,383 to Utah Fund of Funds II, LLC (Fund II), a financing vehicle used to make additional funds available for investing.

NOTE 3 - FAIR VALUE MEASUREMENTS

The Fund uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of non-quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and Level 3 inputs consist of inputs that are unobservable. The Fund uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

UTAH FUND OF FUNDS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the general partner of each fund invested in (collectively "the General Partner"). The General Partner considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the General Partner's perceived risk of that investment.

Substantially all of the Fund's investments have been classified within Level 3 as they have unobservable inputs, as they trade infrequently or not at all. Level 3 investments include common and preferred equity securities, corporate debt, warrants, and other privately issued securities. When observable prices are not available for these securities, the General Partner uses the market approach valuation technique for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using comparable market transactions.

The inputs used by the General Partner in estimating the value of Level 3 investments include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the General Partner in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the General Partner due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Fund's results of operations.

Investments may be classified as Level 2 when market information becomes available, yet the investment is not traded in an active market and/or the investment is subject to transfer restrictions, or the valuation is adjusted to reflect illiquidity and/or non-transferability.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, generally include active listed equities. The General Partner does not adjust the quoted price for such instruments, even in situations where the Fund holds a large position and a sale could reasonably impact the quoted price.

UTAH FUND OF FUNDS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the investments carried on the balance sheet by level within the valuation hierarchy as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ -	\$ -	\$ 89,568,995	\$ 89,568,995

The following table includes a rollforward of the amounts for the year ended December 31, 2011 for investments classified within Level 3. The classification of an investment within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

Balance at December 31, 2010	\$ 70,340,763
Purchases	18,092,388
Distributions	(13,309,530)
Gains	
Realized	60,287
Unrealized	<u>14,385,087</u>
Balance at December 31, 2011	<u>\$ 89,568,995</u>

All net realized and unrealized gains in the table above are reflected in the accompanying statement of operations. The fair values assigned to the investments where no market quotation exists are based upon available information and may not necessarily represent amounts that will ultimately be realized. Such estimated amounts depend on future circumstances. These estimated amounts will not be realized until the individual investments are liquidated.

NOTE 4 - FINANCIAL HIGHLIGHTS

The following financial highlights are being presented in accordance with the provisions of ASC 946, *Financial Services - Investment Companies*.

These financial highlights may not be indicative of the future performance of the Fund.

Cumulative internal rate of return	0.46%
Operating expense ratio	1.70%
Net investment loss ratio	(1.61%)

The net investment loss and operating expense ratios are computed as a percentage of average members' equity. The internal rate of return was computed based on the actual dates of cash inflows (capital contributions), cash outflows (distributions), and ending balance of the Regular Member's equity as of the measurement date (residual value).

UTAH FUND OF FUNDS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 5 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Fund is party to various claims, actions, and complaints. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Fund's financial position or activities.

NOTE 6 - SUBSEQUENT EVENT

In February 2012 the Fund negotiated a promissory note with Zions Bank through Fund II to provide funding in order to redeem \$30,000,000 of the investment made by DBAH Capital, LLC. Fund II may borrow up to \$35,000,000 less an interest reserve as determined by the bank. The note is secured by the portfolio investments of the Fund and guaranteed by the Managing Member. Interest is accrued at 90 Day LIBOR plus 3.25% per annum on the outstanding balance. A non-use fee equal to 0.50% of the unused portion is assessed quarterly. The note matures in February 2017.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Chairman of the Board
Utah Capital Investment Corporation
Members
Utah Fund of Funds, LLC
Salt Lake City, Utah**

We have audited the financial statements of Utah Fund of Funds, LLC (the Fund) as of and for the year ended December 31, 2011 and have issued our report thereon dated July 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the Fund, the Board of Directors, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Wisam Smith Racken & Prescott, LLP

Salt Lake City, Utah
July 31, 2012